



## **Some Observations on the Rising Self-employment in India**

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# Some Observations on the Rising Self-Employment in India

## Theme 9: Measuring the Self-employed, Contract Work, and Gig Workers

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### Abstract

*The recent employment trend has generated some amount of doubt as to why a large section of worker is opting for self-employment when the relative earnings with regular jobs are not remunerative in India. Our results indicate that the self-employed households are mainly rural and concentrated in few states, while the self-employed workers comprise a substantial presence of women workers. In recent years, the growth recorded in the component of helper in household enterprises remained higher than the growth in self-employment segment of own account worker and employers. The involvement of women as household enterprise helpers is visible not only in size but also in growth. We were unable to observe any significant relationship either between self-employed helpers in the household sector and households who availed 100 days of MGNREGS employment or between self-employed own account workers or employers and the number of recognized start-ups on the basis of using the state-level data. However, we do observe a moderate negative correlation between the overall rates of self-employment and unemployment levels in both the years suggesting the entrepreneurial pull of business activities.*

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# Some Observations on the Rising Self-Employment in India

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## 1. Introduction:

While the aspects of stagnant unemployment have remained a crucial challenge for India's comprehensive national employment policy, the recent phenomenon of rising self-employment is being deliberated as a development of interest in the country's labor market. The recent Periodic Labor Force Survey (PLFS, 2019-20) has indicated an increase for the share of self-employment by broad status in employment, which stood at 53.5 % in the percentage distribution of workers in usual status. It may be noted that the government in recent years has initiated various schemes and skill-training programs to promote self-employment in the country. The government schemes viz., 'Mudra Yojana', 'Skill India' programs, "Start-up India" and 'Stand-up India' were the initial designs for incentivizing self-employment. Consequently, there is also a surge in the start-up across all sectors in India covering technology and innovations in health, automobiles, food, and education and so on. Given the analytical link between self-employment and entrepreneurship growth, the rise in self-employment is being seen as the consequence of entrepreneurship and start-ups growth resulting from the government's supportive measures in India. Thus, the rising self-employment is being regarded by many as something good for the labor market and economy, since more entrepreneurs could mean more innovation and new production processes in the economy. It is also claimed the self-employment and entrepreneurship growth could effectively tackle the features of jobless growth that the country is experiencing since the previous decade.

On the other hand, it is also argued that the growing self-employment in India is not the one due to preferences but the result of compulsions mainly created by the lack of employment opportunities in the country. Some analysts have claimed that self-employment in India is mainly made up of casual work and is just an opening to find regular employment. It is observed that most of India's self-employment are not designers of job creation and are unpaid family workers or helpers in household enterprises. It is noticed in the PLFS data that the category of helper in household enterprises contributed to the largest increase in comparison to the category of own-

account workers and employers. Although, self-employment is considered as the launching pad for entrepreneurship, it is not plausible that all the self-employed people in India are entrepreneurs in the sense that they not only provide employment to themselves but also employ others. At the same time as, there has also been an argument that the recent rise in self-employment is due to the rise in the demand for rural job guarantee programme after the migrant workers returned to their villages due to the economic lockdowns. Most of the migrant workers, who returned to their villages, took refuge in MGNREGA schemes that guaranteed at least 100 days of wage employment in a financial year to every rural household.

It is therefore observed that while the government policies are pushing self-employment as an answer to India's unemployment problem, the academic views have been quiet different that claimed self-employment as a form of disguised unemployment or self un(employment) in India. There are several issues that call for research attention in this respect, viz., i) has this evolution happened consistently across major states of India, ii) has this development been working for both the male and female workers, iii) has this expansion been operating in both the rural and urban sectors, iv) has this broadening been happening consistently or is resulted out of the job-losses in pandemic, and v) and finally to what extent this self-employment growth can be linked to the rise in entrepreneurship in or job-guarantee programs run by the government. The main objective of the present paper is set to address these issues by an examination of the recent labor and time use survey state-wise data from PLFS 2019-20 provided by MOSPI-NSC-GOI (2021). We first prepare the ratios and aggregates from the recent labor survey of India and subsequently perform analyses using the cross-sectional data over 31 states in India. The rest of the paper could proceed in the following sequence. The recent changes in composition of self-employment across Indian states are provided in in section 2. The characteristics of the self-employment, particularly the rural-urban and women-men differences in the occupation across states are examined in section 3. The results on the possible links between the growth in self-employment with rising entrepreneurship, or with high engagement in employment guarantee schemes are furnished in section 4. Subsequently, the statistical link between the self-employment and unemployment levels is investigated by using the cross-sectional state level data in section 5. The summary of the results and policy implications are included in the final section.

## 2. Size of the Self Employment:

The distribution of households by the type of work remains an important indicator for the nature of the activity patterns of workers in the economy, wherein households are grouped under three main categories consisting of self-employed, regular wage or salary earners and casual workers. The PLFS data for the year 2020-21 reveals that the share of self-employed households in rural areas increased from 52.2 percent in 2017-18 to 54.8 percent in 2020-21, while the same in urban areas increased from 32.4 to 33.2 during the same points of time. Figure 1 provides the percentage distributions of households by types of work from which household derived their major income in India and different states, separately for the rural and urban areas, during 2019-20. Although there are differences across states, self-employment in rural areas appears to be the main employment category that constituted much higher percentage share in comparison to the regular wage/salaried employee or casual labor in many states. At the same time self-employment remained as the major category even in the urban areas but the difference in the percentage composition with the regular wage/salaried employee remained relatively smaller in the majority of states. In terms of magnitudes, about two-thirds of the rural households in the states of Mizoram, Chhattisgarh, Arunachal Pradesh, Rajasthan and Uttar Pradesh are categorized as self-employment. On the contrary, the highest compositions of urban self-employed households within the state are observed for the states of Bihar, Mizoram, Rajasthan, Manipur and Uttar Pradesh.

*(Insert Figure 1)*

Figure 2 and 3 provides the distribution of the estimated self-employed persons in India of nine hundred seventy-six million one hundred twenty-six thousand four hundred in rural areas and twenty-seven million six hundred fifty-six thousand in urban areas across different states. It can be observed that more than half of the total self-employed persons in rural India remains concentrated in just six states, viz., Uttar Pradesh, Bihar, West Bengal, Maharashtra, Rajasthan and Madhya Pradesh. Similarly, it is the six states of Uttar Pradesh, Maharashtra, West Bengal, Gujarat, Tamil Nadu and Karnataka that contains more than fifty percent of the total self-employed persons in urban India.

*(Insert Figure 2 and 3)*

The Periodic Labor Force Survey provides data on the three broad activity statuses viz. 'employed', 'unemployed' and 'not in labor force', and persons who were either 'working' or 'seeking or available for work' (or unemployed) constituted the labor force. The workers in usual status (principal status + subsidiary status) are categorized into three broad categories according to their status in employment, which are i) self-employed, ii) regular wage/salaried employee and iii) casual labor. The activity of self-employment comes under the status of working (or employed) and constitutes persons who operate on their own in farm or non-farm enterprises, and engage themselves in trade or profession on own-account or with partners. The self-employed persons are further categorized as: i) own-account workers, ii) employers, and iii) helpers in household enterprise. The distribution of workers in the usual status indicated that the percent share of self-employment category increased from 57.8 to 61.3 percent for the rural areas and from 38.3 to 39.5 percent for the urban areas in between the period 2017-18 and 2020-21. The rural and urban combined share of self-employment can be seen to have increased from 52.2 in 2017-18 to 55.6 in 2020-21. On the other hand, the share of workers in regular/salaried jobs registered a fall from 13.1 to 12.1 for rural, from 47 to 46.4 for urban and from 22.8 to 21.1 for rural and urban combined in between the years 2017-18 and 2020-21. The percentage distribution of workers in usual status by broad status in employment for each state is provided by the PLFS survey (2019-20), separately for the rural and urban areas. It is observed that about 60 percent of the rural and 38 percent of the urban workers belong to the status of self-employment in comparison to about 13 percent and 49 percent employed in the regular wage or salary earning in rural and urban areas, respectively.

Figure 4 provides the data on the percentage share of self-employed workers in different states, separately for the rural and urban areas. The status of self-employment at the level of states appears more dominant for rural areas, as the percentage share of self-employed workers in rural areas remained higher than the same for urban areas in all the states. Thus, there are states like Chhattisgarh, Mizoram, Arunachal Pradesh, Jharkhand, Rajasthan, Nagaland, Uttarakhand, Uttar Pradesh and Himachal Pradesh that the level of self-employment in rural areas remained at more than 70 percent of the total usual status workers. In urban areas, highest

levels of self-employments at the level of more than 50 percent are noticed in the states of Bihar, Mizoram, Manipur and Rajasthan.

*(Insert Figure 4)*

Figure 5 captures the percentage distribution of self-employed workers among male and females in different states. When we look at the gender division of work, the percentage share of female workers in self-employment status remained higher than the same for males in all-India and the majority of states. The states that are found with more than 60 percent of the male workers with the status of self-employment are Chhattisgarh, Arunachal Pradesh, Rajasthan, Uttar Pradesh, Mizoram, Jharkhand, Nagaland and Bihar. On the other hand, the highest levels of self-employment among females at the level of more than 70 percent of the total workers are found in Jharkhand, Himachal Pradesh, Jammu & Kashmir, Rajasthan, Uttarakhand, Mizoram, Uttar Pradesh, Chhattisgarh and Nagaland.

*(Insert Figure 5)*

### 3. Features of Self-Employment:

The self-employed persons are categorized in three groups, viz., own-account workers, employers and helpers in household enterprises. The own-account workers operate their enterprises on their own or with one or more partners and without hiring any paid labor, but may hire unpaid helpers to assist in their activities. The employers in the self-employed category work on their own account or with one or a few partners and by and large hire labor to manage their enterprises. Finally, the helpers are generally engaged in household enterprises, working full or part time and did not receive any regular salary or wages in return for the work performed. According to the latest PLFS survey (2019-20), about two-third of the self-employed person remained as own-account workers or employers while the remaining one-third are the helpers in rural areas. The combined percentage share of own-account workers and employers remained at about 80 percent of the total self-employed workers in urban areas. When we focus on the gender aspect of self-employment it is observed that about 80 percent of the male self-employed workers belonged to the category of own-account workers and employers, whereas about 80 percent of the female self-employed workers remain as helpers. Figure 6 captures how the

distribution of the self-employment changed across its different categories in the three previous PLFS surveys of 2017-18, 2018-19 and 2019-20. There is an indication of growth for the percentage composition of helpers along with declining share of own-account workers and employers mainly in the rural segment of the self-employment in India. On the other hand, Figure 7 reveals that the percent share of the female own-account workers or employers registered growth in the PLFS survey of 2020-21 in comparison to the previous rounds. Figure 8 focuses on the component of self-employed workers in the household enterprises at the state level during the PLFS surveys of 2018-19 and 2019-20. It can be seen that there has been a distinct increase in the share of helper in household enterprises in as many as 25 out of 30 states in our sample.

*(Insert Figure 6, 7 and 8)*

Figure 9 captures the employment status of self-employment across industry group during the four rounds of PLFS surveys. We can observe the distinct trend of declining share of own account worker and employer of the agricultural sector over the years. The other two corresponding sectors, viz., the secondary and tertiary sectors indicate signs of growth in terms of own account worker and employer only in the survey of 2020-21. At the same time there is a definite indication that the share of helper in household enterprises in the agriculture has been steadily increasing over the four survey years of 2017-18 through 2020-21.

*(Insert Figure 9)*

One can provide a comparison of the recent PLFS earnings data to examine the differences between the earnings from self employment in comparison to earnings from regular wage or salaried employment. There is obviously a gap between the earnings of self-employment and regular job, but the overall disparity is more pronounced in terms of gender rather than the rural or urban place of residence. This is evident in the data pertaining to the year 2020-21 and in the levels of disparity between male and female person as well as the rural and urban person (Figure 10). The overall earning difference of self-employed workers in 2020-21 worsened marginally in comparison to the level in 2019-20 mainly due to higher rates of deterioration in the earning of urban self-employed workers. While the earning gap in 2021-22 is seen to have

worsened for the urban persons (male and female), the same in reality improved for the group of rural females. In 2020-21, the gender difference in the gap between self-employed and regular wage earnings remained more pronounced in urban areas in comparison to the rural equivalent. As the rural-urban disparity in earning difference is concerned, while the rural males seem to face the challenges in self-employment it is the urban females that remains worse-off due to the rural-urban earning disparities. Thus, the surprising difference between the male and female counterpart is that while the urban males remain better-off in comparison to rural males, the females in urban areas cope with greater challenges in comparison to females in rural areas.

*(Insert Figure 10)*

#### 4. Explaining Self-Employment Growth:

There is an argument that the excessive size of self-employment in India is not due to the attraction for business or entrepreneurship but is a crisis-driven response to a situation where not many formal sector regular wage or salaried jobs are unavailable. The recent trends in labor surveys seem to suggest apprehensions about jobless growth in India, as concerns have been expressed in respect of low decent employment growth numbers. It appears that the creeping job crisis in the country is turning over the accountability of labor absorption to self-employment and entrepreneurships initiatives in the country. Therefore, the recent self-employment growth in the country has been linked to the entrepreneurship and start-ups growth resulting from the government's supportive measures in the country. On the other hand, there has also been a substantial increase in the demand for work under the rural employment generation scheme, viz., MGNREGS that increased immediately after the pandemic and economic lockdown that still continues to remain at a high level. In this section, we address these two issues; whether the growth in self-employment does bear any link with the demand for work under the rural employment generation scheme and the entrepreneurship or start-ups growths.

The emergency triggered by the pandemic during the first lockdown in March 2020 had forced millions of migrant labor to go back to their villages and take recourse to the

MGNREGS's work option. The MGNREGS that is a right based employment programme guaranteeing 100 days of manual employment in a year also contributed to the household belong to poor, landless and socially disadvantage communities. This scheme ensured the self-selection of the rural poor to receive payments by performing manual works. It may therefore appear that the rise in the category of self-employment workers is a direct result of the pandemic's job market impacts and the response of the workers in the unpaid family labor. The MGNREGS wage rate has often remained above the existing agricultural and other non-agricultural wage rates in several sample districts. It has also been observed that more women than men worked under the programme in recent years. Women's participation has been growing since the inception of the Act in 2006, and considering the aspects of low female labor force participation in the country, it is remarkable that the public work programmes attracted positive participation from women. We therefore attempt the plot of self-employment against the demand for MGNREGS work using the cross-sectional data from 29 states and all-India during 2019-20 and 2020-21. The MGNREGS work is captured by state wise data on households who availed 100 days of employment, whereas the segment of helper in household enterprise is used in the analysis. We do not observe any significant relationship between the two either from the scatterplot or from the calculation of the correlation coefficients. However, the correlation coefficient between the helpers in household enterprise and MGNREGS employment is found to have increased from +0.03 in 2019-20 to 0.09 in 2020-21. It is however difficult to subscribe to any hypothesis that the growth in self-employment and MGNREGS jobs complemented each other on the basis of these results.

We subsequently examine for any relationship between the self-employed segments of own account worker and the number of recognized start-ups using the state-level data in India during 2019-20. It may be mentioned that the government has taken various steps for improving employability in the country like encouraging private sector of economy, fast tracking various projects involving substantial investment and increasing public expenditure on schemes like Prime Minister's Employment Generation Programme (PMEGP) run by Ministry of Micro, Small & Medium Enterprises, Mahatma Gandhi National Rural Employment Guarantee Scheme (MG-NREGs), Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) scheme run by Ministry of Rural Development and Deendayal Antyodaya Yojana- National Urban Livelihoods

Mission (DAY-NULM) run by Ministry of Housing & Urban Affairs. This aspect has been interpreted as not enough regular jobs have been created in the urban centers so that a large section of the migrant and displaced workers remained engaged in this scheme. The government is presently offering various schemes to provide financial assistance to potential ventures in the form of subsidies and loans. The results provided a negative and insignificant correlation that is contrary to our expectation and would possibly indicates the absence of any stable relationship between self-employment and start-ups growth in India. It may be noted in this context that although the start-ups or entrepreneurship and self-employment may bear the common characteristics of managing a business, but there remain differences on account of the ownership and operational aspects of the business between the two.

## 5. Self-Employment and Joblessness:

It may be noted that the links between unemployment and self-employment levels in macro-economic are discussed by using the ‘push’ and ‘pull’ approaches of entrepreneurship growth, wherein it is claimed that the unemployment rates can affect self-employment levels both positively and negatively. The ‘push’ approach, also known by the refugee effect, maintains that an increasingly high proportion of workers take recourse to the alternative of self-employment as the unemployment rate starts to rise. On the other hand the ‘pull’ approach, also known by the entrepreneurial effect, suggests that as entrepreneurship encourages the business activities, self-employment in turn activates decline in unemployment levels in subsequent periods. Thus, while the aspect of refugee effect or unemployment-push suggests high unemployment levels positively affecting self-employment through an increase in the start-up activities, the unemployment or the entrepreneurial pull suggests that unemployment could be negatively related to self-employment, as high unemployment reduces the incentives to enter self-employment.

*(Insert Figure 11 and 12)*

Figures 11 and 12 scatter plots the unemployment rates against the self-employment levels for the cross-sectional data of 29 states and all-India during 2019-20 and 2020-21, respectively. The self-employment level is captured by all self-employed including the own

account worker and employer plus the helper in household enterprises, whereas the unemployment rate refers to the all-ages rate in usual (principal and subsidiary) status. We observe a moderate negative correlation between the overall rates of self-employment and unemployment levels in both the years and the degree of correlation between the two seem to have weakened in the recent year.

## 6. Summary and Implications:

In the context of work opportunities, the recent PLFS Survey (2020-21) data provides some interesting changes in both the distribution of household by types as well as the distribution of workers by employment status. The data for the year 2020-21 points out that the share of self-employed households increased in both the rural and urban areas but the share of regular wage or salaried households declined only in urban areas from their levels in 2019-20. At the same time, the share of households in casual workers registered a decline in rural but increased in urban areas in between the years 2019-20 and 2020-21. As the employment status of workers is concerned, a decline in the share of workers in regular/salaried jobs from a level of 22.9 percent in 2019-20 to 21.1 percent in 2020-21 is noticed. At the same time, the share of self-employed workers increased from 53.5 in 2019-20 to 55.6 percent in 2020-21. It may be noted that while the expansion in the share of self-employed workers is observed in both the rural and urban areas, the decline in share of regular wage and salaried workers is more evident in the urban areas. The Indian government in recent years initiated many opportunities for people to be self-employed; however the academic view claims that self-employment has not addressed the challenges of unemployment and joblessness in the country. There could be various factors that are relevant here, such as, whether the self-employment is a rural phenomenon involving the small and marginal farmers and the landless. Likewise, it is important to discern whether more and more women are joining self-employment because of their time poverty. It is also logical to expect wide regional variations depending on the socio-economic backgrounds of the people across states.

The self-employed households in India are mainly rural and concentrated in few states, while the self-employed workers also comprise higher proportion in the rural segment and with substantial presence of women workers. Although, there are differences across states, the share

of rural or urban self-employed households remained quite high in some specific states. When we look at the distribution of total self-employed households in India, we observed that it remained concentrated in a small number of states in both the rural and urban India. In recent years, the growth recorded in the component of helper in household enterprises remained higher than the growth in self-employment segment of own account worker and employers. The involvement of women as household enterprise helpers is visible not only in size but also in growth. The percentage share of workers as helper in household enterprises is visible for all the states in the case of total persons, male and female or rural and urban. The percent share of the female own-account workers or employers registered growth in the PLFS survey of 2020-21. We have observed decline in the share of self-employed helpers in household enterprises that are engaged in the agriculture over the four survey PLFS years of 2017-18 through 2020-21. Also, the gap between the earnings of self-employment and regular job remained more pronounced in terms of gender rather than the rural or urban place of residence. We didn't observe any significant relationship either between self-employed helpers in the household sector and households who availed 100 days of MGNREGS employment or between self-employed own account workers or employers and the number of recognized start-ups on the basis of using the state-level data. We however observed a moderate negative correlation between the overall rates of self-employment and unemployment levels in both the years suggesting that as entrepreneurship encourages the business activities, self-employment in turn can activate decline in unemployment levels in subsequent periods.

The level of self-employment in India is on a continuous rise and has therefore generated some confusion as to why the larger section of worker is opting for self-employment when the relative earnings with regular jobs are not remunerative? It is difficult to believe that in India with its existing poverty numbers and other deprivations people would opt for self-employment and not look for regular wage or salaried employment for livelihood. It has been argued before that the landless farmers and the agricultural workers, who are the marginal workers in rural areas as well as the rural women, are the group of people who form the majority of the self-employed in rural India. The increased levels of self-employment rural women could be on account of enhanced use of labor by family members instead of the hired labor to save on wages. It appears from the recent data that more and more women are joining the self-employed group

during the pandemic times. The recent rise of self-employed helper in family enterprises is also an indication of the joblessness among the small and landless farmers as a large proportion of job seekers under the MGNREGA is composed this category. It was observed in the recent course of periodic and regional economic lock-downs that while the men migrated to cities for better-paid jobs, the women stayed behind to work under MGNREGA and increase the household incomes. However, while the percentage of self employed workers has been increasing over the last four years, the percentage of regular or salaried workers have remained almost stagnant. It is therefore inferred that the rise of self employment in India is a crisis-driven response mainly caused by the stagnant growth of regular wage employments. Some questions remain important as whether the earnings from self-employment are sufficient to attract people into entrepreneurship or start-ups. Further, it is also important to examine whether the rise in self-employment can reduce the extent of gender pay gaps that exists in the present day regular employment. It has been argued that the feature of same wage for man and woman in the guaranteed 100 days of manual employment year has caused the increased women's participation in MGNREGS jobs.

Some experts have questioned whether the increase in self employment can bring down the unemployment rates in India. However, it is claimed that since the self-employment workers remained mostly concentrated in the unorganized and low-productive sectors, its growth numbers would not contribute significantly to any employment generation in the country. Thus, there is the counter-argument that that the growing size of self-employment in the country is a result of the shift away from wage-employment that is indicated by the presence of such a large informal sector in India that engages self-employment in the unorganized set-ups. This is also indicated by the fact that although more than half the labor force in India is self-employed, not many of them happens to be the entrepreneurs or employment generators. Further, it is reasonable to expect that the rise in the category of self-employment workers in India is a consequence of the pandemic's job market impacts and the response of the workers on their unpaid family labor. Therefore, one has to remember that the employment and livelihood impacts of the pandemic and economic lock-downs on the workers could become visible not only in terms of declining numbers but also in regard of the quality of available jobs.

Finally, the rise in self-employment could be a positive development in India if it is creating jobs. It appears that subject to satisfying other macro-economic conditions and labor market flexibilities, the economies with a greater share of self-employment may register faster economic recoveries by jobs creation. Thus, the contemporary government policies may encourage entrepreneurships and start-up activities when there are not adequate levels of employment. In India, the almost stagnant levels of new salaried job creation and persistent levels of unemployment has created increased attention towards self-employment and its relationship to labor market outcomes. This paper also tried to focus on the question as to whether workers are being pushed into self-employment because they cannot find paid employment or whether they are pulled into it because of better remunerations.



Figure 3: Statewise Distribution of Self-Employed Households in India, Urban.

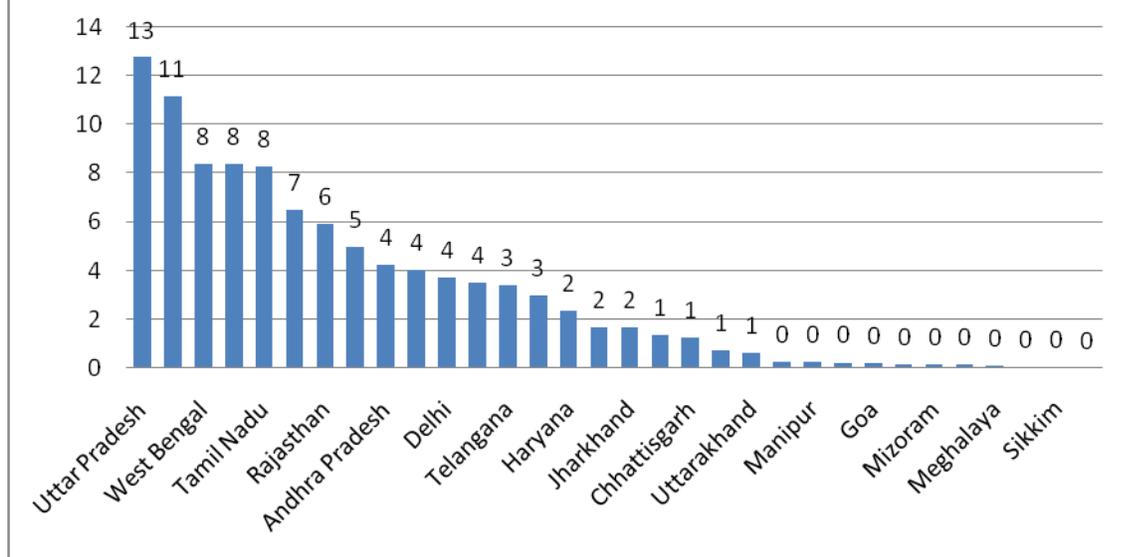
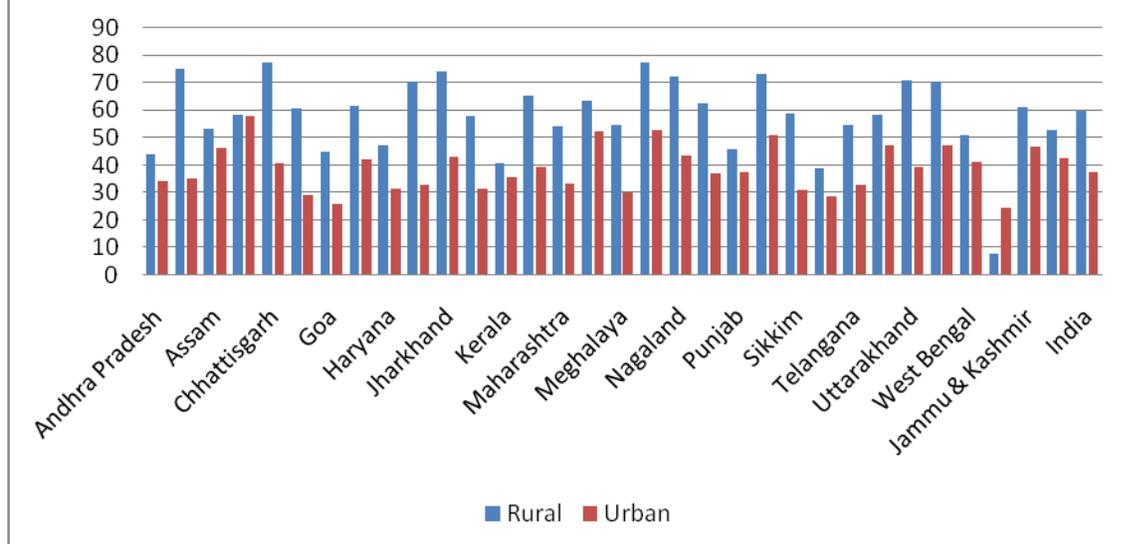


Figure 4: Percentage of Self-Employed Workers in Different States, Rural & Urban, 2019-20.



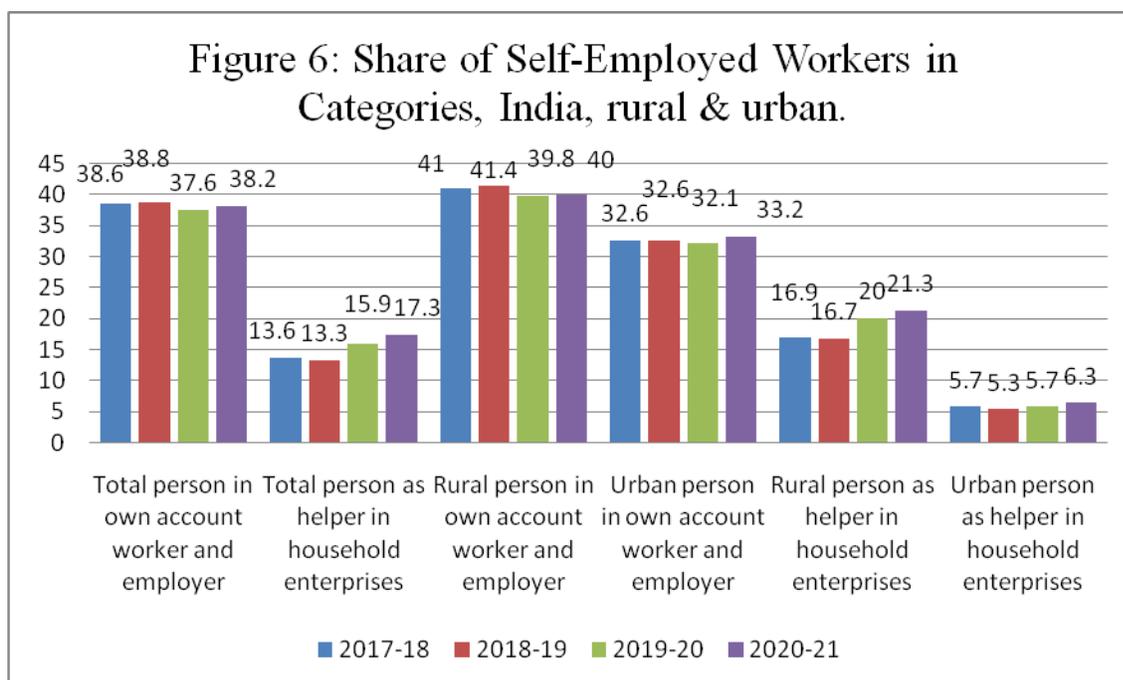
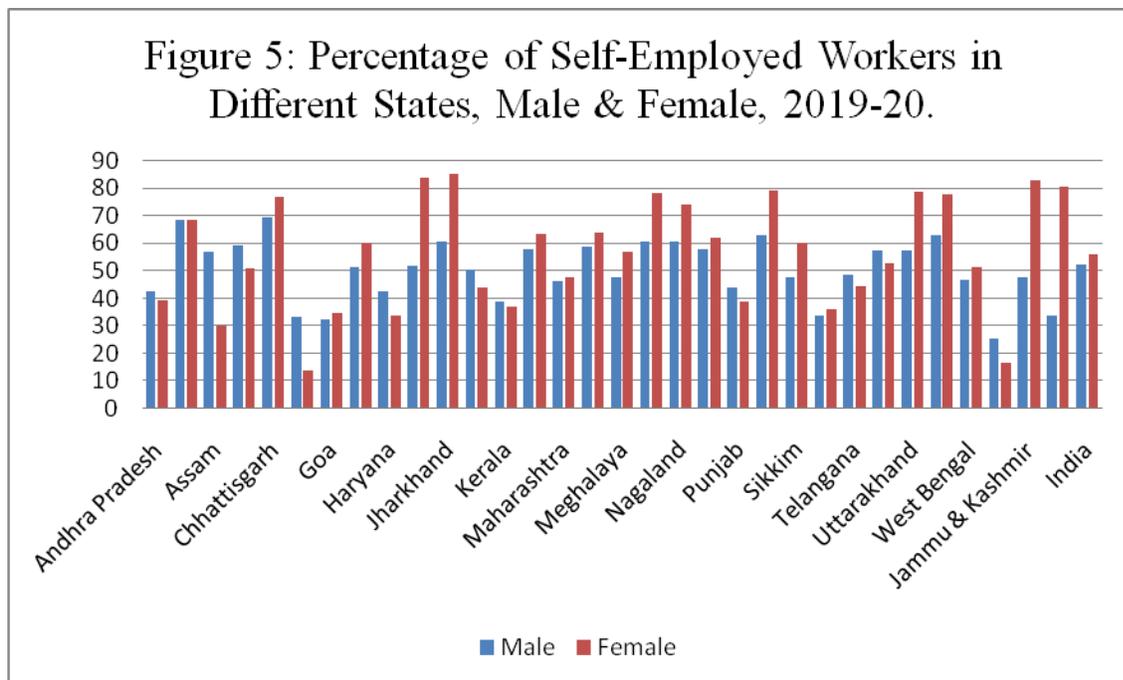


Figure 7: Share of Self-Employed Workers in Categories, India, male & female.

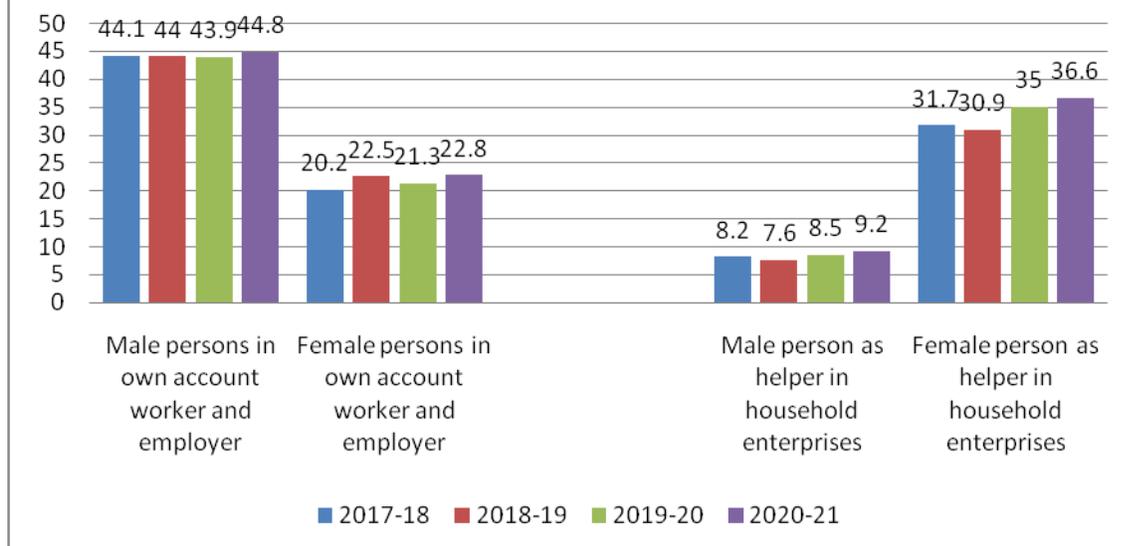


Figure 8: Percentage Share of Total Workers as Helper in Household Enterprise across States.

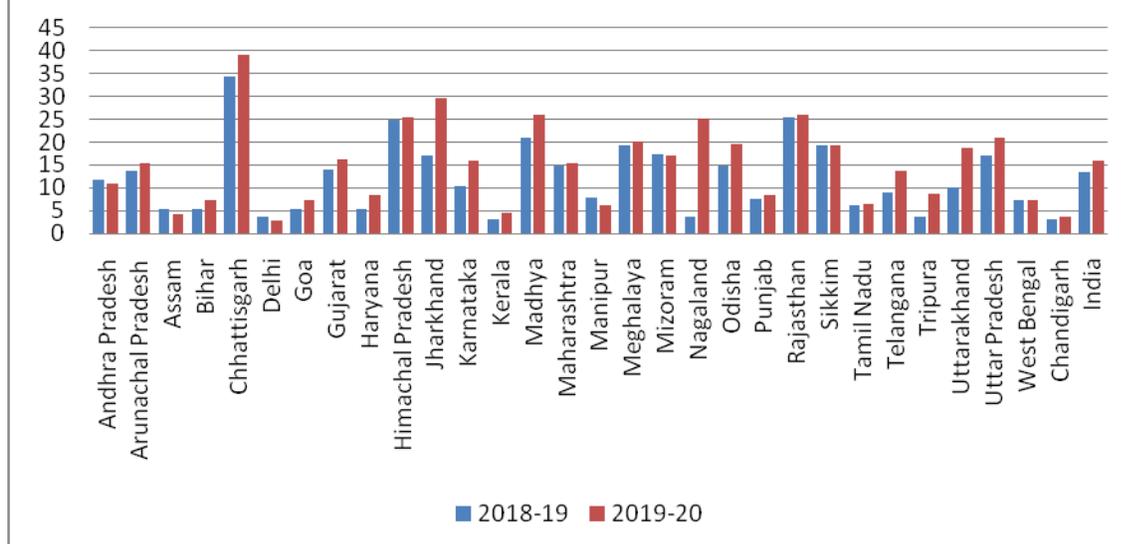


Figure 9: Employment Status of Self-Employment across Industry Groups in India.

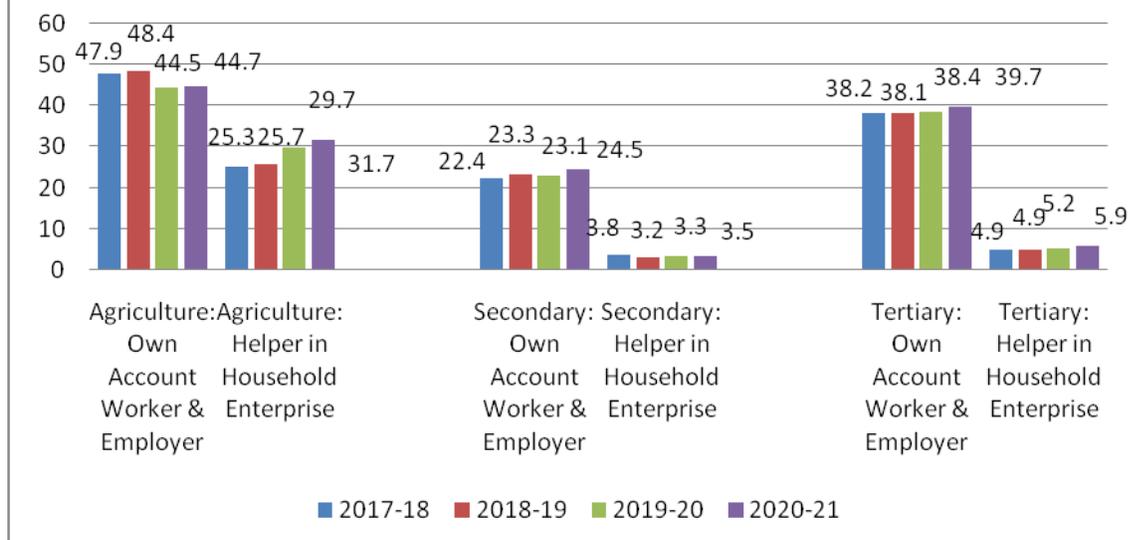


Figure 10: Ratio of Average Monthly Earnings from Self-Employment and Regular Wage/Salaried Employment in CWS.

